

**RULES
OF
TENNESSEE STATE OIL AND GAS BOARD
STATEWIDE ORDER NO. 2
DRILLING, RE-ENTERING, PLUGGING AND ABANDONING EXPLORATORY
AND EXPLOITATION OIL GAS WELLS**

**CHAPTER 1040-2-1
BOND**

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1040-2-1-.01 AMOUNT OF BOND

- (1) A bond is required to be in force for a well from the time a drilling or re-entry well permit is granted until the well is abandoned. The bond shall be for the sum of two thousand dollars (\$2,000) in favor of the Board, conditioned that the well shall be plugged and abandoned in accordance with the rules and regulations of the Board. An individual well bond shall be released upon the proper plugging of the well and the filing with the Supervisor of a Plug and Abandon Report (Form R-P&A-1), driller's log, downhole surveys, well cuttings and cores, and other data as required, or if the permit has been canceled because of lack of proper activity.
- (2) The surety may notify the Supervisor in writing of its desire to terminate its liability under the bond by giving written notice to the Supervisor. The Supervisor shall thereupon require the principal in the bond to file a new bond, or to effect a change of operators on the well within sixty (60) days. If the principal can no longer be contacted, then any interested party may seek a change of operators on the well in accordance with Chapter 1040-2-2-.02(2)(a). If a new bond is filed by the principal, or a change of operators is approved by the Supervisor, liability under the original bond shall cease and terminate as to acts and operations occurring after the effective date of the new bond or approval of the change of operators, and the original bond shall be released upon written request by the surety. If a new bond is not filed within the sixty' (60) days, or a change of operators has not been approved, the Supervisor shall revoke the permit secured by the bond and require the principal to plug the well in accordance with the rules and regulations of the Board. In the event of the failure of the principal to plug the well, the surety may either cause the well to be plugged, or forfeit the amount of the bond to the Board. This action will be initiated by the issuance of a notice of noncompliance, as provided for under chapter 1040-2-1-.07. The surety will then have thirty (30) days in which to plug the well. If the well has not been plugged within that time limit, then a notice of forfeiture will be issued, as provided for under chapter 1040-2-1-.06. The surety will then have twenty-one (21) days in which to petition the State Oil and Gas Board for a hearing relative to the bond forfeiture, pursuant to the Administrative Procedures Act, *T.C.A. §4-5-101 et seq.* If a hearing is requested, no further action will be taken against the bond until such hearing has taken place and a final order given by the Board. If the well is plugged in the interim, then the notice of forfeiture will be canceled and the bond released.

Authority: *T.C.A. §§60-104, 60-1-202 and 60-1-204. Administrative History: Original rule was certified May 24, 1974. Amendment filed April 20, 1988; effective June 4, 1988; Amendment filed August 26, 1988; effective October 10, 1988.*

1040-2-1-.02 BLANKET BOND

- (1) In lieu of an individual bond, any well operator may file with the Supervisor a blanket bond in the sum of ten thousand dollars (\$10,000) covering a maximum of ten (10) wells drilled or to be drilled by the principal in the bond at any one time. Additional wells may be covered by the bond only if wells originally covered by the bond are plugged or transferred to another operator, on a one-for-one basis with the wells to be added to the bond. Otherwise, an additional bond must be filed for each additional group of ten (10) wells. The acceptance and approval by the Supervisor of such blanket bonds shall be in full compliance with the requirements of an individual well bond. A blanket bond shall be released upon the proper plugging of all wells of the operator (principal) covered by the bond, and the filing with the supervisor of Plug and Abandon Reports, driller's logs, downhole surveys, well cuttings and cores, and other data as required for such wells. A blanket bond may be canceled by the surety, notifying the Supervisor in writing, delivered personally or by registered mail, that the operator is no longer authorized by the surety to obtain permits under said bond. If or when all wells permitted under said bond have been abandoned according to the rules and regulations of the Board, or existing permits have been canceled because of lack of proper activity, the Supervisor shall release the bond.
- (2) The surety may notify the Supervisor in writing of its desire to terminate its liability under the bond by giving written notice to the Supervisor. The Supervisor shall thereupon require the principal in the bond to file a new bond, or to effect a change of operators on the well(s) within sixty (60) days. If the principal can no longer be contacted, then any interested party may seek a change of operators on the well(s) in accordance with Chapter 1040-2-2-.02(2)(a). If a new bond is filed by the principal, or a change of operators is approved by the Supervisor on all wells covered by the bond, liability under the original bond shall cease and terminate as to acts and operations occurring after the effective date of the new bond, or approval of the changes of operators, and the original bond shall be released upon written request by the surety. If a new bond is not filed within the sixty (60) days, or a change of operators has not been approved on all wells covered by the bond, the Supervisor shall revoke the permit(s) secured by the bond and require the principal to plug the well(s) in accordance with the rules and regulations of the Board. In the event of the failure of the principal to plug the well(s), the surety may either cause the well(s) to be plugged, or forfeit the mount of the bond to the Board. This action will be initiated by the issuance of a notice of noncompliance, as provided for under chapter 1040-2-1-.07. The surety will then have thirty (30) days in which to plug the wells). If the well(s) have not been plugged within that time limit, then a notice of forfeiture will be issued, as provided for under chapter 1040-2-1-.06. The surety will then have twenty-one (21) days in which to petition the State Oil and Gas Board for a hearing relative to the bond forfeiture, pursuant to the Administrative Procedures Act, *T.C.A. §4-5-101 et seq.* If a hearing is requested, no further action will be taken against the bond until such hearing has taken place and a final order given by the Board. If the well(s) are plugged in the interim, then the notice of forfeiture will be canceled and the bond released.

Authority: *T.C.A. §§60-104, 60-1-202 and 60-1-204. Administrative History: Original rule was certified May 24, 1974. Amendment filed July 1, 1987; effective August 21, 1987. Amendment filed April 20, 1988; effective June 4, 1988. Amendment filed August 26, 1988; effective October 10, 1988.*

1040-2-1-.03 RECLAMATION BOND

- (1) A reclamation bond is required to be filed with the Supervisor at the time an operator's permit application is submitted, and shall be effective from the time the initial surface disturbances begin until the well is plugged and the site and access roads are reclaimed. The bond shall be for the sum of one thousand five hundred dollars (\$1,500) per well site. The bond shall be in favor of the Board, and shall be a performance bond, conditioned that the well site and access roads shall be reclaimed in accordance with the rules and regulations of the Board. Upon satisfactory completion of regrading and revegetation of all disturbed areas except active work areas and access roads needed for oil or gas production, the supervisor shall release one-third (1/3) of the reclamation bond, or reduce the amount of the reclamation bond by one-third (1/3). Access roads that will continue to be used by the landowner for other legitimate purposes and maintained in usable condition, which condition reduces erosion to a practical minimum, will not have to be revegetated by the operator. Such usage shall be

(Rule 1040-2-1-.03, continued)

established by the landowner by sworn affidavit. After plugging of the well and final reclamation of the well site, and after plantings have survived two growing seasons with an established ground cover of at least ninety percent (90%) herbaceous and/or woody species of which at least eighty percent (80%) are perennial species, the supervisor shall release the remainder of the reclamation bond.

- (2) This paragraph shall be applicable only when the same surety is responsible for both the plugging and reclamation bonds on a well. The surety may notify the Supervisor in writing of its desire to terminate its liability under the reclamation bond by giving written notice to the Supervisor. The Supervisor shall thereupon require the principal in the reclamation bond to file a new bond, or to effect a change of operators on the well within sixty (60) days. If the principal can no longer be contacted, then any interested party may seek a change of operations on the well in accordance with chapter 1040-2-2-.02(2)(a). If a new reclamation bond is filed by the principal, or a change of operators is approved by the Supervisor, liability under the original bond shall cease and terminate as to acts and operations occurring after the effective date of the new bond, or approval of the change of operators, and the original bond shall be released upon written request by the surety. If a new reclamation bond is not filed, or a change of operators has not been approved within sixty (60) days, the Supervisor shall revoke the permit secured by the plugging and reclamation bonds and require the principal to plug the well and reclaim the well site and access roads in accordance with the rules and regulations of the Board. In the event of the failure of the principal to plug the well and reclaim the well site and access roads, the surety may either cause the well to be plugged and the well site and access roads to be reclaimed, or forfeit the amount of the bonds to the Board. This action will be initiated by the issuance of notices on noncompliance as provided for under chapter 1040-2-1-.07. The surety will then have thirty (30) days in which to plug the well and reclaim the well site and access roads. If the well has not been plugged and the well site and access roads have not been reclaimed within that time limit then notices of forfeiture will be issued as provided for under chapter 1040-2-1-.06. The surety will then have twenty-one (21) days in which to petition the State Oil and Gas Board for a hearing relative to the bond forfeitures, pursuant to the Administrative Procedures Act *T.C.A. §4-5-101 et seq.* If a hearing is requested, no further action will be taken against the plugging and reclamation bonds until such hearing has taken place and a final order has been given by the Board. In the event the surety causes the well to be plugged and the well site and access roads to be reclaimed the plugging bond shall be released, and the amount of the reclamation bond shall be reduced by one-third (1/3), to one thousand dollars (\$1,000), unless such reduction has previously taken place. The remainder of the reclamation bond will be released only after plantings have survived two growing seasons with an established ground cover of at least ninety percent (90%) herbaceous and/or woody species provided that at least eighty percent (80%) are perennial species.

Authority: *T.C.A. §§60-1-202 and 60-1-204. Administrative History: Original rule was certified May 24, 1974. Amendment filed April 20, 1988; effective June 4, 1988. Amendment filed August 26, 1988; effective October 10, 1988. Amendment filed December 29, 1989; effective February 12, 1990.*

1040-2-1-.04 RELIEF OF RESPONSIBILITY

A permittee's bonds and other responsibilities to a well or wells shall be relieved upon approval by the Supervisor of a successor's application for a Change of Operator or Owner's Permit (Form P-AD-3), furnishing bonds, and the tendering of authority on Form P-AD-3 by the permittee requesting the Supervisor to approve the successor's application.

Authority: *T.C.A. §§60-104, 60-1-202, and 60-1-204. Administrative History: Original rule was certified May 24, 1974. Amendment filed April 20, 1988; effective June 4, 1988.*

1040-2-1-.05 EXECUTION Any of the following shall serve as bonds:

(Rule 1040-2-1-.05, continued)

- (1) A surety bond executed by the well operator as principal and by a corporate surety authorized to do business in Tennessee; or
- (2) Cash; or
- (3) A certified check; or
- (4) A Certificate of Deposit, if it is made out exactly as follows: **"Operator Name and Tennessee Oil and Gas Board or Tennessee Oil and Gas Board"**; and does not contain any terms or conditions that provide that the issuing bank may charge against the deposit any debt of the depositor(s) owing to it (set-off terms); or any terms or conditions that provide that anyone whose signature appears on the signature card may withdraw funds from the account. The operator shall be entitled to any interest earned on a certificate of deposit as the same becomes due and payable. The treasurer of the State of Tennessee shall receive and hold the originals of such certificates in the name of the State of Tennessee, in trust, for the purpose for which such deposit is made, and shall at all times be responsible for the custody and safekeeping of such deposits; provided, however, that the certificate may be returned to the issuing financial institution as may be necessary for renewal from time to time; or
- (5) An irrevocable letter of credit issued by any federally insured bank or savings and loan association. The letter of credit must comply with the format shown on Form ILC (Irrevocable Standby Letter of Credit format).

Authority: T.C.A. §§60-1-202 and 60-1-204. **Administrative History:** Original rule was certified May 24, 1974. Amendment filed February 7, 1986; effective March 9, 1986. Amendment filed April 20, 1988; effective June 4, 1988. Amendment filed August 26, 1988; effective October 10, 1988.

1040-2-1-.06 FORFEITURE

- (1) The Supervisor shall cause a notice of noncompliance to be served upon the operator by certified mail, addressed to the permanent address shown on the application for a permit:
 - (a) If the requirements with respect to proper plugging upon abandonment of a well or wells and submission of all required records and data have not been complied with within the time limits set by the Board, and/or,
 - (b) If the requirements with respect to proper reclamation of the well site(s) and access roads have not been complied with within the time limits set by the Board.
- (2) The notice shall specify in what respects the operator has failed to comply with this chapter or the regulations or orders of the Board.
- (3) If the operator has not reached an agreement with the Supervisor, or has not complied with the requirements set forth within thirty (30) days after mailing the notice, the plugging bond shall then be forfeited to the Board, and the money used by the Board to properly plug the well(s), and/or the reclamation bond used to reclaim the well site(s) and access roads.
- (4) In the case of the plugging bonds, such bonds are penal in nature, and the full amount of the bond will be forfeited.
- (5) In the case of reclamation bonds, such bonds are considered to be performance bonds, and any portion of a reclamation bond not expended to perform the reclamation work shall be refunded to the operator or his surety if the conditions of the bond are fully satisfied.

(Rule 1040-2-1-.06, continued)

Authority: T.C.A. §§60-104, 60-1-202 and 60-1-204. **Administrative History:** Original rule was certified May 24, 1974. Amendment filed April 20, 1988; effective June 4, 1988.

1040-2-1-.07 NOTICE OF NONCOMPLIANCE At any time the Supervisor causes a notice of noncompliance to be served upon an operator (principal), copies of such notice shall be mailed to the resident agent writing such bond (where the address is known) and to the surety company at the address provided to the Tennessee Department of Commerce and Insurance for receipt of notices. The surety shall be afforded the opportunity to act in behalf of the operator (principal) within the time set forth in regard to the proper plugging of the well or wells and submission of required well records, down hole data, and plugging reports and/or reclamation of the well site and access roads. Should the operator (principal) and surety fail to comply within the time provided, then and only in that event, the plugging bond shall be forfeited, and/or the reclamation bond used to reclaim the well site and access roads. When a bond is forfeited pursuant to the provisions of Chapter 1040-2-1 through Chapter 1040-2-12, the Supervisor shall give notice to the Attorney General, who shall institute proceedings to collect the forfeiture.

Authority: T.C.A. §§60-104, 60-1-202 and 60-1-204. **Administrative History:** Original rule was certified May 24, 1974. Amendment filed April 20, 1988; effective June